S. 393

To amend the Internal Revenue Code of 1986 to provide incentives for urban and rural enterprise zones, and for other purposes.

IN THE SENATE OF THE UNITED STATES

February 18 (legislative day, January 5), 1993 Mr. Lieberman introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide incentives for urban and rural enterprise zones, and for other purposes.

- 1 Be it enacted by the Senate and House of Representa-
- 2 tives of the United States of America in Congress assembled,
- 3 SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.
- 4 (a) Short Title.—This Act may be cited as the
- 5 "Enterprise Zone Tax Act of 1993".
- 6 (b) Amendment of 1986 Code.—Except as other-
- 7 wise expressly provided, whenever in this Act an amend-
- 8 ment or repeal is expressed in terms of an amendment
- 9 to, or repeal of, a section or other provision, the reference

1	shall be considered to be made to a section or other provi-
2	sion of the Internal Revenue Code of 1986.
3	SEC. 2. STATEMENT OF PURPOSE.
4	It is the purpose of this Act to establish a demonstra-
5	tion program of providing incentives for the creation of
6	tax enterprise zones in order—
7	(1) to revitalize economically and physically dis-
8	tressed areas, primarily by encouraging the forma-
9	tion of new businesses and the retention and expan-
10	sion of existing businesses, and
11	(2) to promote meaningful employment for tax
12	enterprise zone residents.
13	SEC. 3. DESIGNATION AND TREATMENT OF URBAN TAX EN-
14	TERPRISE ZONES, RURAL DEVELOPMENT IN-
15	VESTMENT ZONES, AND INDIAN RESERVA-
16	TION TAX ENTERPRISE ZONES.
17	(a) IN GENERAL.—Chapter 1 (relating to normal
18	taxes and surtaxes) is amended by inserting after sub-
19	chapter T the following new subchapter:
20	"Subchapter U—Designation and Treatment
21	of Tax Enterprise Zones
	"Part I. Designation of tax enterprise zones. "Part II. Incentives for tax enterprise zones.
22	"PART I—DESIGNATION OF TAX ENTERPRISE
23	ZONES

[&]quot;Sec. 1391. Designation procedure.
"Sec. 1392. Eligibility and selection criteria.

1	"SEC. 1391. DESIGNATION PROCEDURE.
2	"(a) In General.—For purposes of this title, the
3	term 'tax enterprise zone' means any area which is, under
4	this part—
5	"(1) nominated by 1 or more local governments
6	and the State in which it is located for designation
7	as a tax enterprise zone, and
8	"(2) designated by—
9	"(A) the Secretary of Housing and Urban
10	Development in the case of an urban tax enter-
11	prise zone,
12	"(B) the Secretary of Agriculture, in con-
13	sultation with the Secretary of the Interior, in
14	the case of a rural development investment
15	zone, and
16	"(C) the Secretary of the Interior in the
17	case of an Indian reservation tax enterprise
18	zone.
19	"(b) Number of Designations.—
20	"(1) AGGREGATE LIMIT.—The appropriate Sec-
21	retaries shall designate 125 nominated areas as tax
22	enterprise zones under this section, of which 75 shall
23	be urban tax enterprise zones, 40 shall be rural de-
24	velopment investment zones, and 10 shall be Indian

reservation tax enterprise zones. Such designations

1	may be made only during calendar years after 1992
2	and before 1997 and shall be subject to the avail-
3	ability of eligible nominated areas.
4	"(2) Annual limits.—
5	"(A) Urban tax enterprise zones.—
6	The number of urban tax enterprise zones des-
7	ignated under paragraph (1)—
8	"(i) in calendar year 1993 shall not
9	exceed 11,
10	"(ii) in calendar year 1994 shall not
11	exceed the sum of 14 plus the carryover
12	amount for such year,
13	''(iii) in calendar year 1995 shall not
14	exceed the sum of 25 plus the carryover
15	amount for such year, and
16	"(iv) in calendar year 1996 shall not
17	exceed the sum of 25 plus the carryover
18	amount for such year.
19	"(B) Rural development investment
20	ZONES.—The number of rural development in-
21	vestment zones designated under paragraph
22	(1)—
23	"(i) in calendar year 1993 shall not
24	exceed 8,

1	"(ii) in calendar year 1994 shall not
2	exceed the sum of 8 plus the carryover
3	amount for such year,
4	"(iii) in calendar year 1995 shall not
5	exceed the sum of 12 plus the carryover
6	amount for such year, and
7	"(iv) in calendar year 1996 shall not
8	exceed the sum of 12 plus the carryover
9	amount for such year.
10	"(C) Indian reservation tax enter-
11	PRISE ZONES.—The number of Indian reserva-
12	tion tax enterprise zones under paragraph (1)—
13	"(i) in calendar year 1993 shall not
14	exceed 2,
15	"(ii) in calendar year 1994 shall not
16	exceed the sum of 2 plus the carryover
17	amount for such year,
18	"(iii) in calendar year 1995 shall not
19	exceed the sum of 3 plus the carryover
20	amount for such year, and
21	"(iv) in calendar year 1996 shall not
22	exceed the sum of 3 plus the carryover
23	amount for such year.
24	"(D) CARRYOVER AMOUNT.—For purposes
25	of subparagraphs (A), (B), and (C), the carry-

1	over amount for any calendar year shall be
2	equal to the amount by which—
3	"(i) the limitation under such sub-
4	paragraph for the preceding calendar year,
5	exceeds
6	"(ii) the number of designations made
7	under paragraph (1) for the type of tax en-
8	terprise zone to which such subparagraph
9	relates in such preceding calendar year.
10	"(3) Advance designations permitted.—
11	For purposes of this subchapter, a designation dur-
12	ing any calendar year shall be treated as made on
13	January 1 of the following calendar year if the ap-
14	propriate Secretary, in making such designation,
15	specifies that such designation is effective as of such
16	January 1.
17	"(4) CERTAIN ZONES MUST BE IN SMALL
18	CITIES, ETC.—For purposes of this subsection—
19	"(A) of the 75 urban tax enterprise zones,
20	at least 40 shall be from nominated areas which
21	are nominated by 1 or more local governments
22	having jurisdiction over areas with an aggregate
23	population (as determined by the 1990 or sub-
24	sequent census data) of less than 500,000, and

1	"(B) of such zones designated during any
2	calendar year, at least 8 shall be from areas de-
3	scribed in subparagraph (A).
4	"(c) Limitations on Designations.—The appro-
5	priate Secretary may not make any designation under sub-
6	section (a) unless—
7	"(1) the local governments and the State in
8	which the nominated area is located have the au-
9	thority—
10	"(A) to nominate the area for designation
11	as a tax enterprise zone, and
12	"(B) to provide assurances satisfactory to
13	the appropriate Secretary that the commit-
14	ments under section 1392(c) will be fulfilled,
15	"(2) the appropriate Secretary determines that
16	any information furnished is reasonably accurate,
17	and
18	"(3) the State and local governments certify
19	that no portion of the area nominated is already in-
20	cluded in a tax enterprise zone or in an area other-
21	wise nominated to be a tax enterprise zone.
22	"(d) Period for Which Designation Is in Ef-
23	FECT.—
24	"(1) IN GENERAL.—Any designation of an area
25	as a tax enterprise zone shall remain in effect during

1	the period beginning on the date of the designation
2	and ending on the earliest of—
3	"(A) December 31 of the 10th calendar
4	year following the calendar year in which such
5	date occurs,
6	"(B) the termination date designated by
7	the State and local governments as provided for
8	in their nomination, or
9	"(C) the date the appropriate Secretary re-
10	vokes the designation under paragraph (2).
11	"(2) Revocation of designation.—
12	"(A) IN GENERAL.—The appropriate Sec-
13	retary shall revoke the designation of an area
14	as a tax enterprise zone if such Secretary deter-
15	mines that the local government or the State in
16	which it is located—
17	"(i) has significantly modified the
18	boundaries of the area, or
19	"(ii) is not complying substantially
20	with the State and local commitments pur-
21	suant to section 1392(c).
22	"(B) Applicable procedures.—A des-
23	ignation may be revoked by the appropriate
24	Secretary under subparagraph (A) only after a
25	hearing on the record at which officials of the

1	State or local government are given the oppor-
2	tunity to participate and after an opportunity
3	for the State or local government to correct any
4	deficiencies the Secretary determines under
5	subparagraph (A).
6	"(C) REVOCATION TO BE PROSPECTIVE.—
7	Any revocation under subparagraph (A) shall
8	not take effect before the date of the final de-
9	termination under subparagraph (A) (after ap-
10	plication of subparagraph (B)).
11	"SEC. 1392. ELIGIBILITY AND SELECTION CRITERIA.
12	"(a) In General.—The appropriate Secretary may
13	make a designation of any nominated area under section
14	1391 only on the basis of the eligibility and selection cri-
15	teria set forth in this section.
16	"(b) Eligibility Criteria.—
17	"(1) Urban tax enterprise zones.—A nom-
18	inated area which is not a rural area (and no por-
19	tion of which is located on an Indian reservation)
20	shall be eligible for designation under section 1391
21	only if it meets the following criteria:
22	"(A) POPULATION.—The nominated area
23	has a population (as determined by the 1990 or
24	subsequent census data) of not less than

20,000, (10,000 in the case of any urban tax

1	enterprise zone described in section
2	1391(b)(4)).
3	"(B) DISTRESS.—The nominated area is
4	one of pervasive unemployment and general dis-
5	tress.
6	"(C) Size.—The nominated area—
7	"(i) is one contiguous area, and
8	"(ii) is located within not more than
9	2 States.
10	"(D) POVERTY RATE.—The poverty rate
11	(as determined by the 1990 or subsequent cen-
12	sus data)—
13	"(i) for each population census tract
14	within the nominated area is not less than
15	25 percent, and
16	"(ii) for not less than 80 percent of
17	the population census tracts within the
18	nominated area is not less than 35 per-
19	cent.
20	"(E) Course of action.—There has been
21	adopted for the nominated area a course of ac-
22	tion which meets the requirements of subsection
23	(c).
24	"(2) Rural development investment
25	zones.—A nominated area which is a rural area

1	shall be eligible for designation under section 1391
2	only if it meets the following criteria:
3	"(A) POPULATION.—The nominated area
4	has a population (as determined by the 1990 or
5	subsequent census data) of not less than 5,000.
6	"(B) Additional criteria.—The criteria
7	set forth in subparagraphs (B), (C), (D), and
8	(E) of paragraph (1).
9	"(3) Indian reservation tax enterprise
10	ZONES.—A nominated area which is an Indian res-
11	ervation tax enterprise zone shall be eligible for des-
12	ignation under section 1391 only if it meets the fol-
13	lowing criteria:
14	"(A) Size.—The nominated area—
15	"(i) is located on an Indian reserva-
16	tion,
17	"(ii) is one contiguous area, and
18	"(iii) is located within not more than
19	2 States.
20	"(B) Additional criteria.—The criteria
21	set forth in subparagraphs (B), (D), and (E) of
22	paragraph (1).
23	"(4) Special rule with respect to course
24	OF ACTION CRITERIA.—In the case of a nominated
25	area which is—

1	"(A) described in paragraph (2) and is lo-
2	cated on an Indian reservation, or
3	"(B) described in paragraph (3),
4	the criteria set forth in subparagraph (E) of para-
5	graph (1) shall apply only to the extent the reserva-
6	tion governing body has legal authority to comply
7	with such criteria.
8	"(c) Required State and Local Course of Ac-
9	TION.—
10	"(1) IN GENERAL.—No nominated area may be
11	designated as a tax enterprise zone unless the local
12	government and the State in which it is located
13	agree in writing that, during any period during
14	which the area is a tax enterprise zone, the govern-
15	ments will follow a specified course of action de-
16	signed to reduce the various burdens borne by em-
17	ployers or employees in the area.
18	"(2) Course of action.—The course of action
19	under paragraph (1) may be implemented by both
20	governments and nongovernmental entities, may not
21	be funded from proceeds of any Federal program
22	(other than discretionary proceeds), and—
23	"(A) shall include—
24	"(i) a certification by the State insur-
25	ance commissioner (or similar State offi-

1	cial) that basic commercial property insur-
2	ance of a type comparable to that insur-
3	ance generally in force in urban or rural
4	areas, whichever is applicable, throughout
5	the State is available to businesses within
6	the tax enterprise zone,
7	"(ii) a program to ensure the nec-
8	essary rehabilitation of publicly owned
9	property within the tax enterprise zone,
10	"(iii) an increase in the level, or effi-
11	ciency of delivery, of local public services
12	within the tax enterprise zone,
13	"(iv) the involvement in the program
14	by public authorities or private entities, or-
15	ganizations, neighborhood associations,
16	and community groups, particularly those
17	within the nominated area, including a
18	written commitment to provide jobs and
19	job training for, and technical, financial, or
20	other assistance to, employers, employees,
21	and residents of the nominated area,
22	"(v) the giving of special preference to
23	contractors owned and operated by mem-
24	bers of any socially and economically dis-
25	advantaged group (within the meaning of

1	section 8(a) of the Small Business Act (15
2	U.S.C. 637(a)), in connection with an ac-
3	tivity any part of which occurs within the
4	tax enterprise zone,
5	"(vi) the establishment of a program
6	to encourage local financial institutions to
7	satisfy their obligations under the Commu-
8	nity Reinvestment Act of 1977 (12 U.S.C.
9	2901 et seq.) by making loans to tax enter-
10	prise zone businesses, with emphasis on lo-
11	cally-owned businesses and on small-busi-
12	ness concerns (as defined in section 3(a) of
13	the Small Business Act (15 U.S.C.
14	632(a)),
15	"(vii) the giving of special preference
16	to qualified low-income housing projects lo-
17	cated in tax enterprise zones, in the alloca-
18	tion of the State housing credit ceiling ap-
19	plicable under section 42, and
20	"(viii) the giving of special preference
21	to facilities located in tax enterprise zones,
22	in the allocation of the State ceiling on pri-
23	vate activity bonds applicable under section
24	146, and
25	"(B) may include—

1	"(i) a reduction of tax rates or fees
2	applying within the tax enterprise zone,
3	"(ii) the gift (or sale at below fair
4	market value) of surplus land in the tax
5	enterprise zone to neighborhood organiza-
6	tions agreeing to operate a business on the
7	land, and
8	"(iii) the establishment of a program
9	under which employers within the tax en-
10	terprise zone may purchase health insur-
11	ance for their employees on a pooled basis.
12	"(3) Recognition of past efforts.—In
13	evaluating courses of action agreed to by any State
14	or local government, the appropriate Secretary shall
15	take into account the past efforts of the State or
16	local government in reducing the various burdens
17	borne by employers and employees in the area in-
18	volved.
19	"(4) Prohibition of assistance for busi-
20	NESS RELOCATIONS.—
21	"(A) IN GENERAL.—The course of action
22	implemented under paragraph (1) may not in-
23	clude any action to assist any establishment in
24	relocating from 1 area outside the nominated
25	area to the nominated area.

1	"(B) Exception.—The limitation estab-
2	lished in subparagraph (A) shall not be con-
3	strued to prohibit assistance for the expansion
4	of an existing business entity through the estab-
5	lishment of a new branch, affiliate, or subsidi-
6	ary if—
7	"(i) the establishment of the new
8	branch, affiliate, or subsidiary will not re-
9	sult in a decrease in employment in the
10	area of original location or in any other
11	area where the existing business entity
12	conducts business operations, and
13	"(ii) there is no reason to believe that
14	the new branch, affiliate, or subsidiary is
15	being established with the intention of clos-
16	ing down the operations of the existing
17	business entity in the area of its original
18	location or in any other area where the ex-
19	isting business entity conducts business op-
20	erations.
21	"(d) Selection Criteria.—
22	"(1) Eligibility.—The appropriate Secretary
23	shall make a determination as to whether a nomi-
24	nated area meets the eligibility requirements under

subsection (b) for designation as a tax enterprise zone.

"(2) DESIGNATION.—From among the nominated areas determined to be eligible for designation under paragraph (1), the appropriate Secretary shall make designations of tax enterprise zones on the basis of the following factors (each of which is to be given equal weight):

"(A) STATE AND LOCAL COMMITMENTS.—
The strength and quality of the commitments which have been promised as part of the course of action relative to the fiscal ability of the nominating State and local governments.

"(B) IMPLEMENTATION OF COURSE OF ACTION.—The effectiveness and enforceability of the guarantees that the course of action will actually be carried out, including the specificity with which the commitments under subparagraph (A) are described in order that the applicable Secretary will be better able to determine annually under section 1391(d)(2)(A)(ii) whether the commitments are being carried out.

"(C) Private commitments.—The level of commitments by private entities of additional resources and contributions to the economy of

1	the nominated area, including the creation of
2	new or expanded business activities.
3	"(D) Levels of poverty and dis-
4	TRESS.—The relative levels of distress and pov-
5	erty under subparagraphs (B) and (D) of sub-
6	section (b)(1).
7	"SEC. 1393. DEFINITIONS AND SPECIAL RULES.
8	"For purposes of this subchapter—
9	"(1) Urban tax enterprise zone.—The
10	term 'urban tax enterprise zone' means a tax enter-
11	prise zone which meets the requirements of section
12	1392(b)(1).
13	"(2) Rural development investment
14	ZONE.—The term 'rural development investment
15	zone' means a tax enterprise zone which meets the
16	requirements of section 1392(b)(2).
17	"(3) Indian reservation tax enterprise
18	ZONE.—The term 'Indian reservation tax enterprise
19	zone' means a tax enterprise zone which meets the
20	requirements of section 1392(b)(3).
21	"(4) GOVERNMENTS.—If more than 1 govern-
22	ment seeks to nominate an area as a tax enterprise
23	zone, any reference to, or requirement of, this sub-
24	chapter shall apply to all such governments.

1	"(5) Indian reservation.—The term 'Indian
2	reservation' means a reservation, as defined in—
3	"(A) section 3(d) of the Indian Financing
4	Act of 1974 (25 U.S.C. 1452(d)), or
5	"(B) section 4(10) of the Indian Child
6	Welfare Act of 1978 (25 U.S.C. 1903(10)).
7	"(6) Local government.—The term 'local
8	government' means—
9	"(A) any county, city, town, township, par-
10	ish, village, or other general purpose political
11	subdivision of a State, and
12	"(B) any combination of political subdivi-
13	sions described in subparagraph (A) recognized
14	by the appropriate Secretary.
15	"(7) Nominated Area.—
16	"(A) IN GENERAL.—The term 'nominated
17	area' means an area which is nominated by 1
18	or more local governments and the State in
19	which it is located for designation as a tax en-
20	terprise zone under this subchapter.
21	"(B) Indian reservations.—In the case
22	of a nominated area on an Indian reservation,
23	the reservation governing body (as determined
24	by the Secretary of the Interior) shall be

1	deemed to be both the State and local govern-
2	ments with respect to the area.
3	"(8) Rural area.—The term 'rural area
4	means any area which is—
5	"(A) outside of a metropolitan statistical
6	area (within the meaning of section
7	143(k)(2)(B), or
8	"(B) determined by the Secretary of Agri-
9	culture, after consultation with the Secretary of
10	the Interior, to be a rural area.
11	Such term may include an area within an Indian
12	reservation.
13	"(9) APPROPRIATE SECRETARY.—The term 'ap-
14	propriate Secretary' means—
15	"(A) the Secretary of Housing and Urban
16	Development in the case of urban tax enterprise
17	zones,
18	"(B) the Secretary of Agriculture in the
19	case of rural development investment zones, and
20	"(C) the Secretary of the Interior in the
21	case of Indian reservation tax enterprise zones
22	"(10) Population census tracts.—If areas
23	are not tracted as population census tracts, the
24	equivalent county divisions as defined by the Bureau

- 21 of the Census for purposes of defining poverty areas 1 2 shall be treated as population census tracts. 3 "PART II—INCENTIVES FOR TAX ENTERPRISE 4 **ZONES** "Subpart A. Enterprise zone employment credits. "Subpart B. Investment incentives. "SUBPART C. General provisions. 5 "Subpart A—Enterprise Zone Employment Credits "Sec. 1395. Enterprise zone employment credit. "SEC. 1395. ENTERPRISE ZONE EMPLOYMENT CREDIT. 7 "(a) Amount of Credit.—For purposes of section 38, the amount of the enterprise zone employment credit determined under this section with respect to any employer for any taxable year is 30 percent of the qualified zone wages paid or incurred during such taxable year. 12 "(b) QUALIFIED ZONE WAGES.—For purposes of this section, the term 'qualified zone wages' means any wages paid or incurred by an employer for services performed by an employee while such employee is a qualified zone employee to the extent such wages do not exceed \$15,000. 17 18 "(c) Qualified Zone Employee.—For purposes of this section— 19 "(1) IN GENERAL.—Except as otherwise pro-20
- 21 vided in this subsection, the term 'qualified zone em-22 ployee' means, with respect to any period, any em-23 ployee of an employer if—

1	"(A) substantially all of the services per-
2	formed during such period by such employee for
3	such employer are performed within a tax en-
4	terprise zone in a trade or business of the em-
5	ployer, and
6	"(B) the principal place of abode of such
7	employee while performing such services is
8	within such tax enterprise zone.
9	"(2) Certain individuals not eligible.—
10	The term 'qualified zone employee' shall not in-
11	clude—
12	"(A) any individual described in subpara-
13	graph (A), (B), or (C) of section 51(i)(1),
14	"(B) any 5-percent owner (as defined in
15	section $416(i)(1)(B)$),
16	"(C) any individual unless such individual
17	either—
18	"(i) is employed by the employer at
19	least 90 days, or
20	"(ii) has completed at least 120 hours
21	of services performed for the employer,
22	"(D) any individual employed by the em-
23	ployer at any facility described in section
24	144(c)(6)(B), and

1	"(E) any individual employed by a trade or
2	business the principal activity of which is farm-
3	ing (within the meaning of subparagraphs (A)
4	or (B) of section 2032A(e)(5)), but only if, as
5	of the close of the preceding taxable year, the
6	unadjusted basis of the assets of the farm ex-
7	ceed \$500,000.
8	"(d) Credit Refundable for Small Employ-
9	ERS.—
10	"(1) In general.—In the case of so much of
11	the credit allowed by section 38 which is attributable
12	to the enterprise zone employment credit of a small
13	employer—
14	"(A) section 38(c) shall not apply, and
15	"(B) for purposes of this title, such credit
16	shall be treated as if it were allowed under sub-
17	part C of this part (relating to refundable cred-
18	its).
19	"(2) Small employer.—For purposes of this
20	subsection—
21	"(A) IN GENERAL.—The term 'small em-
22	ployer' means, with respect to any taxable year,
23	any employer which had gross receipts not
24	greater than \$2,000,000 during the preceding
25	taxable year.

1	"(B) PHASEOUT.—In the case of an em-
2	ployer which had gross receipts in excess of
3	\$1,000,000, the amount of the credit to which
4	paragraph (1) would otherwise apply shall be
5	reduced by the amount which bears the same
6	ratio to the amount of the credit as such excess
7	bears to \$1,000,000.
8	"(C) Gross receipts; predecessors.—
9	For purposes of this paragraph, rules similar to
10	the rules of subparagraphs (B), (C), and (D) of
11	section 448(c)(3) shall apply.
12	"(e) Notice of Availability of Advance Pay-
13	MENT OF EARNED INCOME CREDIT.—No credit shall be
14	allowed to any employer which fails to notify all of the
15	employees of such employer eligible to receive advanced
16	payments of the credit under section 32 (relating to the
17	earned income credit) of the availability of such advanced
18	payments.
19	"(f) Other Definitions and Special Rules.—
20	For purposes of this section—
21	"(1) WAGES.—
22	"(A) IN GENERAL.—The term 'wages' has
23	the same meaning as when used in section 51,
24	except that paragraph (4) of section 51(c) shall
25	not apply.

1	"(B) Certain training and edu-
2	CATIONAL BENEFITS.—
3	"(i) In general.—The following
4	amounts shall be treated as wages paid to
5	an employee:
6	"(I) Any amount paid or in-
7	curred by an employer which is ex-
8	cludable from the gross income of an
9	employee under section 127, but only
10	to the extent paid or incurred to a
11	person which is not a related person.
12	"(II) In the case of an employee
13	who has not attained the age of 19,
14	any amount paid or incurred by an
15	employer for any youth training pro-
16	gram operated by such employer in
17	conjunction with local education offi-
18	cials.
19	"(ii) Related Person.—A person is
20	related to any other person if the person
21	bears a relationship to such other person
22	specified in section $267(b)$ or $707(b)(1)$, or
23	such person and such other person are en-
24	gaged in trades or businesses under com-
25	mon control (within the meaning of sub-

sections (a) and (b) of section 52). For 1 2 purposes of the preceding sentence, in applying section 267(b) or 707(b)(1), '10 3 percent' shall be substituted for '50 percent'. 6 "(2) Controlled groups.— 7 "(A) Treated as single employer.— All employers treated as a single employer 8 9 under subsection (a) or (b) of section 52 shall be treated as a single employer for purposes of 10 11 this subpart. 12 "(B) Proportionate share.—The credit 13 (if any) determined under this section with respect to each employer described in subpara-14 15 graph (A) shall be such employer's propor-16 tionate share of the wages giving rise to such 17 credit. 18 "(3) CERTAIN OTHER RULES MADE APPLICA-19 BLE.—Rules similar to the rules of section 51(k) 20 and subsections (c), (d), and (e) of section 52 shall 21 apply. 22 "Subpart B—Investment Incentives

[&]quot;Sec. 1397. Additional expensing allowance.

[&]quot;Sec. 1397A. Accelerated depreciation.

[&]quot;Sec. 1397B. Deduction for purchase of enterprise zone stock.

[&]quot;Sec. 1397C. Low-income housing credit.

[&]quot;Sec. 1397D. Ordinary loss treatment for certain property.

1	"SEC. 1397. ADDITIONAL EXPENSING ALLOWANCE.
2	"(a) In General.—In the case of a qualified enter-
3	prise zone business, for purposes of section 179—
4	"(1) qualified zone property shall be treated as
5	section 179 property,
6	"(2) the limitation under subsection (b) shall
7	apply in lieu of the limitation under section
8	179(b)(1), and
9	"(3) in the case of section 179 property other
10	than qualified zone property, the limitation under
11	section 179(b)(1) (as reduced under section
12	179(b)(2)) applicable to such property shall be re-
13	duced (but not below zero) by the cost of qualified
14	zone property placed in service during the taxable
15	year.
16	"(b) Limitation.—Subject to the limitation of sec-
17	tion 179(b)(2), the aggregate cost of qualified zone prop-
18	erty which may be taken into account under section 179(a)
19	for any taxable year shall not exceed the sum of—
20	"(1) \$10,000, plus,
21	"(2) 50 percent of so much of such cost as ex-
22	ceeds \$10,000 but does not exceed \$50,000.
23	"(c) Qualified Enterprise Zone Business.—
24	"(1) In general.—For purposes of this sub-
25	chapter, the term 'qualified enterprise zone business'
26	means—

1	"(A) any qualified business entity, and
2	"(B) any qualified proprietorship.
3	"(2) Qualified business entity.—For pur-
4	poses of this subsection, the term 'qualified business
5	entity' means, with respect to any taxable year, any
6	corporation or partnership if for such year—
7	"(A)(i) every trade or business of such en-
8	tity is the active conduct of a qualified business
9	within a tax enterprise zone, and
10	"(ii) at least 80 percent of the total gross
11	income of such entity is derived from the active
12	conduct of any such business,
13	"(B) substantially all of the use of the tan-
14	gible property of such entity (whether owned or
15	leased) is within a tax enterprise zone,
16	"(C) substantially all of the intangible
17	property of such entity is used in, and exclu-
18	sively related to, the active conduct of any such
19	business,
20	"(D) substantially all of the services per-
21	formed for such entity by its employees are per-
22	formed in a tax enterprise zone,
23	"(E) at least 1/3 of its employees are resi-
24	dents of a tax enterprise zone, and

1	"(F) less than 5 percent of the average of
2	the aggregate unadjusted bases of the property
3	of such entity is attributable to—
4	"(i) collectibles (as defined in section
5	408(m)(2)) other than collectibles that are
6	held primarily for sale to customers in the
7	ordinary course of any such business, or
8	"(ii) nonqualified financial property.
9	"(3) Qualified proprietorship.—For pur-
10	poses of this subsection, the term 'qualified propri-
11	etorship' means, with respect to any taxable year,
12	any qualified business carried on by an individual as
13	a proprietorship if for such year—
14	"(A) at least 80 percent of the total gross
15	income of such business is derived from the ac-
16	tive conduct of such business in a tax enterprise
17	zone,
18	"(B) substantially all of the use of the tan-
19	gible property of such business (whether owned
20	or leased) is within a tax enterprise zone,
21	"(C) substantially all of the intangible
22	property of such business is used in, and exclu-
23	sively related to, the active conduct of such
24	business,

1	"(D) substantially all of the services per-
2	formed for such business by employees of such
3	business are performed in a tax enterprise zone,
4	"(E) at least $\frac{1}{3}$ of such employees are
5	residents of a tax enterprise zone,
6	"(F) less than 5 percent of the average of
7	the aggregate unadjusted bases of the property
8	of such business is attributable to—
9	"(i) collectibles (as defined in section
10	408(m)(2)) other than collectibles that are
11	held primarily for sale to customers in the
12	ordinary course of such business, or
13	''(ii) nonqualified financial property.
14	For purposes of this paragraph, the term 'employee'
15	includes a self-employed individual (within the mean-
16	ing of section $401(c)(1)$).
17	"(4) Qualified business.—For purposes of
18	this subsection—
19	"(A) In general.—Except as otherwise
20	provided in this paragraph, the term 'qualified
21	business' means any trade or business.
22	"(B) RENTAL OF REAL PROPERTY.—The
23	rental of any building or structure located in a
24	tax enterprise zone shall be treated as a quali-
25	fied business if and only if at least 50 percent

of the gross rental income from the building or structure is from enterprise zone businesses (without regard to this subparagraph).

- "(C) RENTAL OF TANGIBLE PERSONAL PROPERTY.—The rental of tangible personal property shall be treated as a qualified business if and only if substantially all of the rental of such property is by enterprise zone businesses or by residents of a tax enterprise zone.
- "(D) TREATMENT OF BUSINESS HOLDING INTANGIBLES.—The term 'qualified business' shall not include any trade or business consisting predominantly of the development or holding of intangibles for sale or license.
- "(E) CERTAIN BUSINESSES EXCLUDED.— The term 'qualified business' shall not include any trade or business consisting of the operation of any facility described in section 144(c)(6)(B) or of operating a trade or business the principal activity of which is farming (within the meaning of subparagraph (A) or (B) of section 2032A(e)(5)), but only if, as of the close of the preceding taxable year, the unadjusted basis of the assets of the farm exceed \$500,000.

1	"(5) Nonqualified financial property.—
2	For purposes of this subsection, the term 'non-
3	qualified financial property' means debt, stock, part-
4	nership interests, options, futures contracts, forward
5	contracts, warrants, notional principal contracts, an-
6	nuities, and other similar property specified in regu-
7	lations; except that such term shall not include—
8	"(A) reasonable amounts of working cap-
9	ital held in cash, cash equivalents, or debt in-
10	struments with a term of 18 months or less, or
11	"(B) accounts or notes receivable described
12	in section 1221(4).
13	"(6) Termination of enterprise zone busi-
14	NESS.—An activity shall cease to be a qualified en-
15	terprise zone business as of the date on which the
16	designation of the enterprise zone in which the activ-
17	ity is conducted terminates or is revoked pursuant to
18	section 1391(d). The preceding sentence shall not
19	apply—
20	"(A) during the 1st taxable year of an ac-
21	tivity,
22	"(B) to property placed in service before
23	the date of the termination or revocation of
24	such designation, or

1	"(C) to property placed in service on or
2	after such date pursuant to a binding, written
3	contract in effect before such date and at all
4	times thereafter.
5	"(d) QUALIFIED ZONE PROPERTY.—For purposes of
6	this section—
7	"(1) In general.—The term 'qualified zone
8	property' means any property to which section 168
9	applies—
10	"(A) if such property was acquired by the
11	taxpayer by purchase (as defined in section
12	179(d)(2)) after the date on which the designa-
13	tion of the tax enterprise zone took effect,
14	"(B) the original use of which in a tax en-
15	terprise zone commences with the taxpayer, and
16	"(C) substantially all of the use of which
17	is in a tax enterprise zone and is in the active
18	conduct of a trade or business by the taxpayer
19	in such zone.
20	"(2) Special rule for substantial ren-
21	OVATIONS.—In the case of any property which is
22	substantially renovated by the taxpayer, the require-
23	ments of subparagraphs (A) and (B) of paragraph
24	(1) shall be treated as satisfied. For purposes of the
25	preceding sentence, property shall be treated as sub-

stantially renovated by the taxpayer if, during any 24-month period beginning after the date on which the designation of the tax enterprise zone took effect, additions to basis with respect to such property in the hands of the taxpayer exceed the greater of (i) an amount equal to the adjusted basis at the beginning of such 24-month period in the hands of the taxpayer, or (ii) \$5,000.

- "(3) EXCEPTION FOR ALTERNATIVE DEPRECIA-TION PROPERTY.—The term 'qualified zone property' does not include any property to which the alternative depreciation system under section 168(g) applies, determined—
- "(A) without regard to section 168(g)(7)
 (relating to election to use alternative depreciation system), and
- "(B) after application of section 280F(b)
 (relating to listed property with limited business use).
- "(e) Special Rules for Sale-Leasebacks.—For purposes of subsection (d)(1), if property is sold and leased back by the taxpayer within 3 months after the date such property was originally placed in service, such property shall be treated as originally placed in service not ear-

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- 1 lier than the date on which such property is used under
- 2 the leaseback.
- 3 "(f) RECAPTURE.—Rules similar to the rules under
- 4 section 179(d)(10) shall apply with respect to any quali-
- 5 fied zone property of any business which ceases to be a
- 6 qualified enterprise zone business.

7 "SEC. 1397A. ACCELERATED DEPRECIATION.

- 8 "(a) In General.—For purposes of section 168,
- 9 with respect to qualified zone property (as defined in sec-
- 10 tion 1397(d)) of a qualified enterprise zone business (as
- 11 defined in section 1397(c)), the applicable recovery period
- 12 shall be determined in accordance with the table contained
- 13 in subsection (b) in lieu of the table contained in section
- 14 168(c)(1).
- 15 "(b) Applicable Recovery Period for Quali-
- 16 FIED ZONE PROPERTY.—For purposes of subsection (a)—

"In the case of:	The applicable recovery period is	
3-year property	2 years	S
5-year property		S
7-year property	4 years	S
10-year property		S
15-year property		S
20-year property		S
Nonresidential real property	20 years	s.

17 "SEC. 1397B. DEDUCTION FOR PURCHASE OF ENTERPRISE

- 18 **ZONE STOCK.**
- 19 "(a) GENERAL RULE.—In the case of an individual,
- 20 there shall be allowed as a deduction an amount equal to
- 21 50 percent of the aggregate amount paid in cash by the

1	taxpayer during the taxable year for the purchase of enter-
2	prise zone stock.
3	"(b) Limitation.—
4	"(1) In general.—The maximum amount al-
5	lowed as a deduction under subsection (a) to a tax-
6	payer for the taxable year shall not exceed the lesser
7	of—
8	"(A) \$20,000, or
9	"(B) the excess of \$200,000 over the
10	amount allowed as a deduction under this sec-
11	tion to the taxpayer for all prior taxable years.
12	"(2) Excess amounts.—If the amount other-
13	wise deductible by any person under subsection (a)
14	exceeds the limitation under paragraph (1)—
15	"(A) the amount of such excess shall be
16	treated as an amount paid to which subsection
17	(a) applies during the next taxable year, and
18	"(B) the deduction allowed for any taxable
19	year shall be allocated proportionately among
20	the enterprise zone stock purchased by such
21	person on the basis of the respective purchase
22	prices per share.
23	"(3) AGGREGATION WITH FAMILY MEMBERS.—
24	The taxpayer and members of the taxpayer's family
25	(as defined in section $267(c)(4)$) shall be treated as

1	one person for purposes of paragraph (1), and the
2	limitations contained in such paragraph shall be al-
3	located among the taxpayer and such members in
4	accordance with their respective purchases of enter-
5	prise zone stock.
6	"(c) Enterprise Zone Stock.—For purposes of
7	this section—
8	"(1) In General.—The term 'enterprise zone
9	stock' means stock of a corporation if—
10	"(A) such stock is acquired on original
11	issue from the corporation, and
12	"(B) such corporation is, at the time of
13	issue, a qualified enterprise zone issuer.
14	"(2) Proceeds must be invested in quali-
15	FIED ZONE PROPERTY.—The term 'enterprise zone
16	stock' shall include such stock only to the extent
17	that the proceeds of such issuance are used by such
18	issuer during the 12-month period beginning on the
19	date of issuance to purchase (as defined in section
20	179(d)(2)) qualified zone property (as defined in
21	section 1397(d)).
22	"(3) Redemptions.—The term 'enterprise
23	zone stock' shall not include any stock acquired from
24	a corporation which made a substantial stock re-

demption or distribution (without a bona fide busi-

1	ness purpose therefor) in an attempt to avoid the
2	purposes of this section.
3	"(d) Qualified Enterprise Zone Issuer.—For
4	purposes of this section, the term 'qualified enterprise
5	zone issuer' means any domestic C corporation if—
6	"(1) such corporation is a qualified enterprise
7	zone business (as defined in section 1397(c)) or, in
8	the case of a new corporation, such corporation is
9	being organized for purposes of being such a quali-
10	fied enterprise zone business,
11	"(2) such corporation does not have more than
12	one class of stock,
13	"(3) the sum of—
14	"(A) the money,
15	"(B) the aggregate unadjusted bases of
16	property owned by such corporation, and
17	"(C) the value of property leased to the
18	corporation (as determined under regulations
19	prescribed by the Secretary),
20	does not exceed \$2,000,000, and
21	"(4) more than 20 percent of the total voting
22	power, and 20 percent of the total value, of the
23	stock of such corporation is owned directly by indi-
24	viduals or estates or indirectly by individuals
25	through partnerships or trusts.

1	The determination under paragraph (3) shall be made as
2	of the time of issuance of the stock in question but shall
3	include amounts received for such stock.
4	"(e) Dispositions of Stock.—
5	"(1) Basis reduction.—For purposes of this
6	title, the basis of any enterprise zone stock shall be
7	reduced by the amount of the deduction allowed
8	under this section with respect to such stock.
9	"(2) Deduction recaptured as ordinary
10	INCOME.—For purposes of section 1245—
11	"(A) any stock the basis of which is re-
12	duced under paragraph (1) (and any other
13	property the basis of which is determined in
14	whole or in part by reference to the adjusted
15	basis of such stock) shall be treated as section
16	1245 property, and
17	"(B) any reduction under paragraph (1)
18	shall be treated as a deduction allowed for de-
19	preciation.
20	If an exchange of any stock described in paragraph
21	(1) qualifies under section 354(a), 355(a), or
22	356(a), the amount of gain recognized under section
23	1245 by reason of this paragraph shall not exceed
24	the amount of gain recognized in the exchange (de-
25	termined without regard to this paragraph).

1	"(3) Certain events treated as disposi-
2	TIONS.—For purposes of determining the amount
3	treated as ordinary income under section 1245 by
4	reason of paragraph (2), paragraph (3) of section
5	1245(b) (relating to certain tax-free transactions)
6	shall not apply.
7	"(4) Interest charged if disposition
8	WITHIN 5 YEARS OF PURCHASE.—
9	"(A) In general.—If—
10	"(i) a taxpayer disposes of any enter-
11	prise zone stock with respect to which a
12	deduction was allowed under subsection (a)
13	(or any other property the basis of which
14	is determined in whole or in part by ref-
15	erence to the adjusted basis of such stock)
16	before the end of the 5-year period begin-
17	ning on the date such stock was purchased
18	by the taxpayer, and
19	"(ii) section 1245(a) applies to such
20	disposition by reason of paragraph (2),
21	then the tax imposed by this chapter for the
22	taxable year in which such disposition occurs
23	shall be increased by the amount determined
24	under subparagraph (B).

1	"(B) Additional amount.—For purposes
2	of subparagraph (A), the additional amount
3	shall be equal to the amount of interest (deter-
4	mined at the rate applicable under section
5	6621(a)(2)) that would accrue—
6	"(i) during the period beginning on
7	the date the stock was purchased by the
8	taxpayer and ending on the date of the dis-
9	position by the taxpayer,
10	"(ii) on an amount equal to the aggre-
11	gate decrease in tax of the taxpayer result-
12	ing from the deduction allowed under this
13	subsection (a) with respect to such stock.
14	"(C) Special rule.—Any increase in tax
15	under subparagraph (A) shall not be treated as
16	a tax imposed by this chapter for purposes of—
17	"(i) determining the amount of any
18	credit allowable under this chapter, and
19	"(ii) determining the amount of the
20	tax imposed by section 55.
21	"(f) Disqualification.—
22	"(1) Issuer ceases to qualify.—If, during
23	the 10-year period beginning on the date enterprise
24	zone stock was purchased by the taxpayer, the issuer
25	of such stock ceases to be a qualified enterprise zone

issuer (determined without regard to subsection (d)(3)), then notwithstanding any provision of this subtitle other than paragraph (2), the taxpayer shall be treated for purposes of subsection (e) as disposing of such stock (and any other property the basis of which is determined in whole or in part by reference to the adjusted basis of such stock) during the taxable year during which such cessation occurs at its fair market value as of the 1st day of such taxable year.

"(2) CESSATION OF ENTERPRISE ZONE STATUS NOT TO CAUSE RECAPTURE.—A corporation shall not fail to be treated as a qualified enterprise zone issuer for purposes of paragraph (1) solely by reason of the termination or revocation of a tax enterprise zone designation.

"(g) OTHER SPECIAL RULES.—

"(1) APPLICATION OF LIMITS TO PARTNER-SHIPS AND S CORPORATIONS.—In the case of a partnership or an S corporation, the limitations under subsection (b) shall apply at the partner and shareholder level and shall not apply at the partnership or corporation level.

1	"(2) DEDUCTION NOT ALLOWED TO ESTATES
2	AND TRUSTS.—Estates and trusts shall not be treat-
3	ed as individuals for purposes of this section.
4	"SEC. 1397C. LOW-INCOME HOUSING CREDIT.
5	"For purposes of section 42(d)(5)(C), any building
6	located in a tax enterprise zone shall be treated in the
7	same manner as if located in a qualified census tract.
8	"SEC. 1397D. ORDINARY LOSS TREATMENT FOR CERTAIN
9	PROPERTY.
10	"(a) IN GENERAL.—Loss on any qualified zone asset
11	held for more than 2 years (5 years in the case of real
12	property) shall be treated as an ordinary loss.
13	"(b) QUALIFIED ZONE ASSET.—For purposes of sub-
14	section (a)—
15	"(1) In general.—The term 'qualified zone
16	asset' means—
17	"(A) in the case of an individual, any
18	qualified zone stock or any qualified zone part-
19	nership interest, and
20	"(B) any qualified zone business property.
21	"(2) Qualified zone stock.—
22	"(A) IN GENERAL.—Except as provided in
23	subparagraph (B), the term 'qualified zone
24	stock' means any stock in a domestic corpora-
25	tion if—

1	"(i) such stock is acquired by the tax-
2	payer on original issue from the corpora-
3	tion solely in exchange for cash,
4	"(ii) as of the time such stock was is-
5	sued, such corporation was an enterprise
6	zone business, or, in the case of a new cor-
7	poration, such corporation was being orga-
8	nized for purposes of being an enterprise
9	zone business, and
10	"(iii) during substantially all of the
11	taxpayer's holding period for such stock,
12	such corporation qualified as an enterprise
13	zone business.
14	"(B) Exclusion of Stock for which
15	DEDUCTION UNDER SECTION 1397B AL-
16	LOWED.—The term 'qualified zone stock' shall
17	not include any stock the basis of which is re-
18	duced under section 1397B(e)(1).
19	"(C) REDEMPTIONS.—The term 'qualified
20	zone stock' shall not include any stock acquired
21	from a corporation which made a substantial
22	stock redemption or distribution (without a
23	bona fide business purpose therefor) in an at-
24	tempt to avoid the purposes of this section.

1	"(3) Qualified zone partnership inter-
2	EST.—The term 'qualified zone partnership interest'
3	means any interest in a partnership if—
4	"(A) such interest is acquired by the tax-
5	payer from the partnership solely in exchange
6	for cash,
7	"(B) as of the time such interest was ac-
8	quired, such partnership was an enterprise zone
9	business, or, in the case of a new partnership,
10	such partnership was being organized for pur-
11	poses of being an enterprise zone business, and
12	"(C) during substantially all of the tax-
13	payer's holding period for such interest, such
14	partnership qualified as an enterprise zone
15	business.
16	A rule similar to the rule of paragraph (2)(C) shall
17	apply for purposes of this paragraph.
18	"(4) Qualified zone business property.—
19	The term 'qualified zone business property' means—
20	"(A) any qualified zone property (as de-
21	fined in section 1397(d)), and
22	"(B) any land which is an integral part of
23	an enterprise zone business.

1	"(5) Enterprise zone business.—The term
2	'enterprise zone business' means a qualified business
3	entity (as defined in section 1397(c)(2)).

- "(6) REAL PROPERTY.—The term 'real property' means any property which is section 1250 property (as defined in section 1250(c)).
- "(7) TREATMENT OF ZONE TERMINATIONS.—

 The termination of any designation of an area as a tax enterprise zone shall be disregarded for purposes of determining whether any property is a qualified zone asset.
- 12 "(c) Special Rules.—For purposes of this sec-13 tion—

"(1) Treatment of Pass-thru entities.—

"(A) Sales and exchanges.—Loss on the sale or exchange of an interest in a pass-thru entity held by the taxpayer (other than an interest in an entity which was an enterprise zone business during substantially all of the period the taxpayer held such interest) for more than 5 years shall be treated as ordinary loss described in subsection (a) to the extent such loss is attributable to amounts which would be loss on qualified zone assets (determined as if such assets had been sold on the date of the

1	sale or exchange) held by such entity for more
2	than 5 years and throughout the period the tax-
3	payer held such interest.
4	"(B) Distributions.—
5	"(i) In general.—Any loss described
6	in clause (ii) shall be treated as ordinary
7	loss described in subsection (a).
8	"(ii) Requirements.—A loss is de-
9	scribed in this clause if—
10	"(I) such loss is attributable to
11	loss on the sale or exchange by the
12	pass-thru entity of property which is a
13	qualified zone asset in the hands of
14	such entity and which was held by
15	such entity for the period required
16	under subsection (a), and
17	"(II) such amount is included in
18	computing the taxable income of the
19	taxpayer by reason of the holding of
20	an interest in such entity.
21	"(C) Pass-thru entity.—For purposes
22	of this paragraph, the term 'pass-thru entity'
23	means—
24	''(i) any partnership,
25	"(ii) any S corporation,

1	"(iii) any regulated investment com-
2	pany, and
3	"(iv) any common trust fund.
4	"(2) CERTAIN TAX-FREE AND OTHER TRANS-
5	FERS.—
6	"(A) IN GENERAL.—In the case of a trans-
7	fer of a qualified zone asset to which this para-
8	graph applies, the transferee shall be treated
9	as—
10	"(i) having acquired such asset in the
11	same manner as the transferor, and
12	"(ii) having held such asset during
13	any continuous period immediately preced-
14	ing the transfer during which it was held
15	(or treated as held under this paragraph)
16	by the transferor.
17	"(B) Transfers to which paragraph
18	APPLIES.—This paragraph shall apply to any
19	transfer—
20	"(i) by gift,
21	"(ii) at death, or
22	"(iii) from a partnership to a partner
23	thereof of a qualified zone asset with re-
24	spect to which the requirements of para-
25	graph (2)(B) are met at the time of the

1	transfer (without regard to the 5-year
2	holding requirement).
3	"(3) Certain other rules made applica-
4	BLE.—Rules similar to the rules of paragraphs (1),
5	(2), and (3) of section 1244(d) shall apply.
6	"(4) Coordination with Section 1231.—
7	Losses treated as ordinary losses by reason of this
8	subsection shall not be taken into account in apply-
9	ing section 1231.
10	"Subpart C—General Provisions
	"Sec. 1397E. Regulations.
11	"SEC. 1397E. REGULATIONS.
12	"The Secretary shall prescribe such regulations as
13	may be necessary or appropriate to carry out the purposes
14	of this part, including—
15	"(1) regulations limiting the benefit of this part
16	in circumstances where such benefits, in combination
17	with benefits provided under other Federal pro-
18	grams, would result in an activity being 100 percent
19	or more subsidized by the Federal Government, and
20	"(2) regulations preventing avoidance of the
21	provisions of this part."
22	(b) Clerical Amendment.—The table of sub-
23	chapters for chapter 1 is amended by inserting after the
24	item relating to subchapter T the following new item:

"Subchapter U. Designation and treatment of tax enterprise zones."

SEC. 4. TAX ENTERPRISE ZONE BONDS.

(a) IN GENERAL.—Subsection (a) of section 142 (re-2 3 lating to exempt facility bonds) is amended by striking "or" at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting ", or", and 5 by adding at the end thereof the following new paragraph: 7 "(13) qualified enterprise zone facilities." 8 (b) Definition.—Section 142 is amended by adding at the end thereof the following new subsection: "(k) Qualified Enterprise Zone Facilities.— 10 11 "(1) IN GENERAL.—For purposes of subsection (a) (13), the term 'qualified enterprise zone facilities' 12 13 means any qualified zone property (as defined in section 1397(d) (other than paragraph (3) thereof)) 14 15 of a qualified enterprise zone business (as defined in 16 section 1397(c)), and any land located within a tax 17 enterprise zone which is an integral part of such 18 business. 19 "(2) Tax enterprise zone.—For purposes of 20 this subsection (and for applying sections 1397(c) 21 and 1397(d) under paragraph (1)), the term 'tax en-22 terprise zone' has the meaning given such term by 23 section 1391(a), except that such term also includes

any other nominated area for the 5-year period be-

1	ginning with the date such area determined by the
2	appropriate Secretary under section 1392(d)(1) to
3	be eligible for designation as a tax enterprise zone.
4	"(3) Use of proceeds.—
5	"(A) Period to spend proceeds.—
6	"(i) General rule.—A bond issued
7	as part of an issue described in subsection
8	(a)(13) shall not be considered an exempt
9	facility bond unless the proceeds are spent
10	for the governmental purpose of the issue
11	within an 18-month period of the date of
12	the issuance of the bond.
13	"(ii) Exception.—Clause (i) shall
14	not apply to any bond if—
15	"(I) the issuer pays a penalty
16	equal to 3 percent of the amount of
17	available proceeds of the issue which
18	is not spent for the governmental pur-
19	pose of the issue as of the close of the
20	18-month period described in clause
21	(i), and
22	"(II) the issuer redeems such
23	bond not later than 24 months after
24	the date of the issuance of the bond.

"(B) 1 LIMITATION ON **AMOUNT** OF 2 BONDS.—A bond issued as part of an issue described in subsection (a)(13) shall not be con-3 4 sidered an exempt facility bond if, at any time, the face amount of such bond plus the aggre-5 gate face amount of any outstanding bonds is-6 7 sued as part of an issue described in subsection (a) (13) used or to be used with respect to any 8 9 qualified enterprise zone business which is a 10 principal user of a facility financed by the pro-11 ceeds of the issue exceeds \$1,000,000 (not in-12 cluding as outstanding any bond which is to be 13 redeemed). For purposes of the preceding sen-14 tence, all persons treated as a single employer 15 under subsection (a) or (b) of section 52 shall 16 be treated as 1 person.

- "(C) Housing loans excluded.—A bond issued as part of an issue described in subsection (a)(13) shall not be considered an exempt facility bond if any portion of the proceeds are used directly or indirectly to provide residential real property."
- 23 (b) CERTAIN RULES NOT TO APPLY.—Subsection 24 (h) of section 147 (relating to other requirements applica-

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- 1 ble to certain private activity bonds) is amended by adding
- 2 at the end thereof the following new paragraph:
- 3 "(3) Bonds for qualified enterprise zone
- 4 FACILITIES.—Subsections (c)(2) and (d) shall not
- 5 apply to any bonds the proceeds of which are used
- 6 to finance qualified enterprise zone facilities."
- 7 (c) VOLUME CAP ONLY CHARGED WITH 50 PER-
- 8 CENT OF TAX ENTERPRISE ZONE BONDS.—Subsection
- 9 (g) of section 146 (relating to volume cap) is amended
- 10 by striking "and" at the end of paragraph (3), by striking
- 11 the period at the end of paragraph (4) and inserting ",
- 12 and", and by adding at the end thereof the following new
- 13 paragraph:
- 14 "(5) 50 percent of any bond issued as part of
- an issue described in subsection 142(a)(13)."
- 16 (d) Penalties for Loans Made to Businesses
- 17 THAT CEASE TO BE ENTERPRISE ZONE BUSINESSES,
- 18 ETC.—Subsection (b) of section 150 (relating to defini-
- 19 tions and special rules) is amended by adding at the end
- 20 thereof the following new paragraph:
- 21 "(7) Tax enterprise zone bonds.—In the
- case of any qualified enterprise zone facility with re-
- spect to which financing was provided by an issue
- described in section 142(a)(13)—

1	"(A) No deduction allowed.—No de-
2	duction shall be allowed under this chapter for
3	interest on such financing which accrues during
4	the period beginning on the first day of the cal-
5	endar year which includes the date on which—
6	"(i) the trade or business to which the
7	financing was provided ceases to be a
8	qualified enterprise zone business (as de-
9	fined in section 1397(c)), or
10	"(ii) substantially all of the use of
11	such facility (determined in accordance
12	with subchapter U) with respect to which
13	the financing was provided ceases to be in
14	a tax enterprise zone.
15	For purposes of this subparagraph (and for ap-
16	plying section 1397(c) under this subpara-
17	graph), the term 'tax enterprise zone' has the
18	meaning given such term by section 142(k)(2).
19	"(B) Penalty imposed on business.—If
20	at any time during the 10-year period beginning
21	on the date such financing was provided—
22	"(i) such facility ceases to be in use in
23	a qualified enterprise zone business (as so
24	defined), or

1	"(ii) substantially all of the use of
2	such facility ceases to be in a tax enter-
3	prise zone (as so defined),
4	there is hereby imposed on such business to
5	which such financing was provided a penalty
6	equal to 1.25 percent of so much of the face
7	amount of all financing provided (whether or
8	not from the same issue and whether or not
9	such issue is outstanding) before such cessation
10	to such business using such facility.
11	"(C) EXCEPTION IF ZONE CEASES.—Sub-
12	paragraphs (A) and (B) shall not apply solely
13	by reason of the termination or revocation of a
14	tax enterprise zone designation.
15	"(D) Exception for bankruptcy.—
16	Subparagraphs (A) and (B) shall not apply to
17	any cessation resulting from bankruptcy."
18	(e) Bank Interest Deduction.—
19	(1) In general.—Clause (ii) of section
20	265(b)(3)(B) (relating to exception for certain tax-
21	exempt obligations) is amended—
22	(A) by striking "or" at the end of
23	subclause (I),
24	(B) by redesignating subclause (II) as
25	subclause (III), and

1	(C) by inserting after subclause (I) the fol-
2	lowing new subclause:
3	"(II) any bond elected not to be treated as
4	a private activity bond under clause (iii), or".
5	(2) Election not to treat qualified en-
6	TERPRISE ZONE FACILITY BONDS AS PRIVATE AC-
7	TIVITY BONDS.—Section 265(b)(3)(B) is amended
8	by adding at the end thereof the following new
9	clause:
10	"(iii) Election not to treat qualified en-
11	TERPRISE ZONE FACILITY BONDS AS PRIVATE AC-
12	TIVITY BONDS.—A bond issued as part of an issue
13	described in section 142(a)(13) shall not treated as
14	a private activity bond if, on or before the date of
15	the issue of such bond, the issuer irrevocably elects
16	not to treat such bond as a private activity bond for
17	purposes of clause (i)(II)."
18	(3) CONFORMING AMENDMENT.—Subclause (I)
19	of section 265(b)(3)(B)(i) (defining qualified tax-ex-
20	empt obligation) is amended by inserting "or is an
21	obligation issued as part of an issue described in
22	section 142(a)(13)" after "issues".
23	SEC. 5. EXPANSION OF TARGETED JOBS CREDIT.
24	(a) Allowance of Credit for Hiring Tax En-

25 TERPRISE ZONE RESIDENT.—Paragraph (1) of section

1	51(d) (defining members of targeted groups) is amended
2	by striking "or" at the end of subparagraph (I), by strik-
3	ing the period at the end of subparagraph (J) and insert-
4	ing ", or", and by adding at the end the following new
5	subparagraph:
6	"(K) a tax enterprise zone resident."
7	(b) Tax Enterprise Zone Resident.—Section
8	51(d) is amended by adding at the end thereof the follow-
9	ing new paragraph:
10	"(17) Tax enterprise zone resident.—
11	"(A) In General.—The term 'tax enter-
12	prise zone resident' means an individual whose
13	principal place of abode while performing serv-
14	ices for the employer is within a tax enterprise
15	zone (as defined in section 1391(a)).
16	"(B) Special rule for determining
17	AMOUNT OF CREDIT.—For purposes of applying
18	this subpart to wages paid or incurred to any
19	tax enterprise zone resident, subsection (a)
20	shall be applied by substituting '30 percent' for
21	'40 percent'.
22	"(C) COORDINATION WITH ZONE EMPLOY-
23	MENT CREDIT.—For purposes of this para-
24	graph, the term 'qualified wages' shall not in-

1	clude wages taken into account in determining
2	the credit under section 1395."
3	SEC. 6. OTHER PROVISIONS.
4	(a) ALTERNATIVE MINIMUM TAX.—
5	(1) Employment credit may offset regu-
6	LAR AND MINIMUM TAX.—
7	(A) REGULAR TAX.—Subsection (c) of sec-
8	tion 38 (relating to limitation based on amount
9	of tax) is amended by adding at the end the fol-
10	lowing new paragraph:
11	"(3) Special rules for employment cred-
12	IT.—
13	"(A) IN GENERAL.—This section and sec-
14	tion 39 shall be applied separately—
15	"(i) first with respect to so much of
16	the credit allowed by subsection (a) as is
17	not attributable to the employment credit,
18	and
19	"(ii) then with respect to the employ-
20	ment credit.
21	"(B) Rules for application of em-
22	PLOYMENT CREDIT.—
23	"(i) IN GENERAL.—In the case of the
24	employment credit, in lieu of applying the
25	preceding paragraphs of this subsection,

1	the amount of such credit allowed under
2	subsection (a) for any taxable year shall
3	not exceed the net chapter 1 tax for such
4	year.
5	"(ii) Net chapter 1 tax.—For pur-
6	poses of clause (i), the term 'net chapter 1
7	tax' means the sum of the regular tax li-
8	ability for the taxable year and the tax im-
9	posed by section 55 for the taxable year,
10	reduced by the sum of the credits allowable
11	under this part for the taxable year (other
12	than under section 34 and other than the
13	employment credit).
14	"(C) Employment credit.—For pur-
15	poses of this paragraph, the term 'employment
16	credit' means the credit allowable under sub-
17	section (a) by reason of section 1394, other
18	than that portion of such credit which is treat-
19	ed under section 1394(d) as allowable under
20	subpart C.''
21	(B) MINIMUM TAX.—Paragraph (2) of sec-
22	tion 55(c) is amended to read as follows:
23	"(2) Cross references.—
24	"(A) For provisions providing that certain
25	credits are not allowable against the tax im-

1	posed by this section, see sections 26(a),
2	28(d)(2), 29(b)(5), and 38(c).
3	"(B) For provisions allowing employment
4	credit against the tax imposed by this section,
5	see section 38(c)(3)."
6	(2) EXPENSING.—Subparagraph (A) of section
7	56(a)(1) (relating to adjustments in computing al-
8	ternative minimum taxable income) is amended—
9	(A) in clause (i), by striking "(ii)" and in-
10	serting ''(ii) or (iii)'', and
11	(B) by adding at the end thereof the fol-
12	lowing new clause:
13	"(iii) Expensing for qualified tax
14	ENTERPRISE ZONE PROPERTY.—The allow-
15	ance provided by section 1397(a) for quali-
16	fied zone property shall be allowed."
17	(b) Enterprise Zone Employment Credit Part
18	of General Business Credit.—
19	(1) Subsection (b) of section 38 (relating to
20	current year business credit) is amended by striking
21	"plus" at the end of paragraph (7), by striking the
22	period at the end of paragraph (8) and inserting ",
23	plus", and by adding at the end the following new
24	paragraph:

1	"(9) the enterprise zone employment credit de-
2	termined under section 1394(a)."
3	(2) Subsection (d) of section 39 is amended by
4	adding at the end thereof the following new para-
5	graph:
6	"(4) No carryback of section 1394 credit
7	BEFORE ENACTMENT.—No portion of the unused
8	business credit for any taxable year which is attrib-
9	utable to the enterprise zone employment credit de-
10	termined under section 1394 may be carried to a
11	taxable year ending before the date of the enactment
12	of section 1394."
13	(c) Denial of Deduction for Portion of Wages
14	EQUAL TO ENTERPRISE ZONE EMPLOYMENT CREDIT.—
15	(1) Subsection (a) of section 280C (relating to
16	rule for targeted jobs credit) is amended—
17	(A) by striking "the amount of the credit
18	determined for the taxable year under section
19	51(a)" and inserting "the sum of the credits
20	determined for the taxable year under sections
21	51(a) and 1394(a)", and
22	(B) by striking "Targeted Jobs Cred-
23	IT' in the subsection heading and inserting
24	"EMPLOYMENT CREDITS".

- 1 (2) Subsection (c) of section 196 (relating to 2 deduction for certain unused business credits) is 3 amended by striking "and" at the end of paragraph 4 (4), by striking the period at the end of paragraph 5 (5) and inserting ", and", and by adding at the end
- 7 "(6) the enterprise zone employment credit de-8 termined under section 1394(a)."

the following new paragraph:

- 9 (d) Acquisitions.—Subsection (c) of section 381
 10 (relating to carryovers in certain corporate acquisitions)
 11 is amended by adding at the end the following new para12 graph:
- 13 "(26) Enterprise zone provisions.—The 14 acquiring corporation shall take into account (to the 15 extent proper to carry out the purposes of this sec-16 tion and subchapter U, and under such regulations 17 as may be prescribed by the Secretary) the items re-18 quired to be taken into account for purposes of sub-19 chapter U in respect of the distributor or transferor corporation." 20
- (e) Nonitemizers Allowed Deduction for En-Terprise Zone Stock.—Subsection (a) of section 62 is amended by adding after paragraph (14) the following new paragraph:

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"(15) Enterprise zone stock.—The deduc-

tion allowed by section 1397B."
(f) Coordination With Refund Provision.—For
purposes of section 1324(b)(2) of title 31 of the United
States Code, section 1395(d) of the Internal Revenue Code
of 1986 (as added by this Act) shall be considered to be
a credit provision of the Internal Revenue Code of 1954
enacted before January 1, 1978.
SEC. 7. EFFECTIVE DATE; STUDY.
(a) GENERAL RULE.—The amendments made by this
Act shall take effect on the date of the enactment of this
Act.
(b) REQUIREMENT FOR RULES.—Not later than the
date 4 months after the date of the enactment of this Act,
the appropriate Secretaries shall issue rules—
(1) establishing the procedures for nominating
areas for designation as tax enterprise zones,
(2) establishing a method for comparing the
factors listed in section 1392(d) of the Internal Rev-
enue Code of 1986 (as added by this subtitle),
(3) establishing recordkeeping requirements
necessary or appropriate to assist the studies re-
quired by section 107, and
(4) providing that State and local governments
shall have at least 5 months after such rules are

- 1 published to file applications for nominated areas be-
- 2 fore such applications are evaluated and compared
- and any area designated as a tax enterprise zone.
- 4 (c) Study of Effectiveness of Tax Enterprise
- 5 Zone Incentives.—
- (1) IN GENERAL.—The Secretary of the Treas-6 ury, in consultation with the appropriate Secretary 7 8 (as defined in section 1393(9) of the Internal Reve-9 nue Code of 1986) shall contract, within 3 months 10 of the date of the enactment of this Act, with the National Academy of Sciences (hereafter in this sec-11 tion referred to as the 'Academy') to conduct a 12 13 study of the relative effectiveness of the incentives 14 and the assistance provided by this Act in achieving 15 the purposes of tax enterprise zones.
 - (2) CONDUCT OF STUDY.—If the Academy contracts for the conduct of the study described in paragraph (1), the Academy shall develop a study methodology and shall oversee and manage the conduct of such study.
 - (3) Reports.—The Academy shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate—

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1	(A) not later than July 1, 1997, an interim
2	report setting forth the findings as a result of
3	such study, and
4	(B) not later than July 1, 2000, a final re-
5	port setting forth the findings as a result of
6	such study.
7	(4) Funding.—There are authorized to be ap-
8	propriated to carry out the study and reports de-
9	scribed in this subsection, \$500,000 for fiscal year
10	1993, and such sums as are necessary for each suc-
11	ceeding fiscal year.

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